

Report to: **Audit Committee**

Date: **8 April 2021**

Title: **Update on Progress on the 2020-21 Internal Audit Plan**

Portfolio Area: **Cllr J Pearce – Leader of Council**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken:

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**Recommendations:**

**It is recommended that:**

1. The progress made against the 2020/21 internal audit plan, and any key issues arising are noted and approved.

**1. Executive summary**

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2020/21 to 19<sup>th</sup> March 2021, by:

- Showing the progress made by Internal Audit against the 2020/21 annual internal audit plan, as approved by Full Council in April 2020; and
- Highlighting any revisions to the 2020/21 internal audit plan;

## **2. Background**

The Audit Committee, under its Terms of Reference contained in South Hams Council's Constitution, is required to consider the Chief Internal Auditor's audit reports, to monitor and review the internal audit programme and findings, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2020/21 was originally due to be presented to the Audit Committee in March 2020. However, due to the COVID-19 pandemic, the meeting was cancelled and the plan was subsequently presented and approved by Full Council on 30<sup>th</sup> April 2020.

Progress in the period up to 19<sup>th</sup> March 2021 has been impacted by the pandemic with Internal Audit resources used to assist officers in the payment of various grants to businesses, in particular the evaluation/reviewing of applications. Out of 405 productive days so far by the audit team, 165 days have been spent on COVID related work with one of the audit officers continuing to assist with the processing of business grants. As reported in the last progress report, the diverting of audit resources meant a delay in commencing the 2020/21 plan and a subsequent review of the plan identified which audits should go ahead in the remainder of the audit year and those that could be either cancelled or deferred into 2021/22.

I am pleased to inform the Committee that there have been no days reported sickness absence in the year to date.

In addition, the Council, in association with several partner organisations receive funding from the Rural Development Programme for England (RDPE) – Local Action 2015-2020 programme, with £1.5m awarded to the South Devon Coastal Local Action Group (LAG) and £2.0m to the Greater Dartmoor Local Enterprise Action Fund (LEAF). The Council, as the Accountable Body, is responsible for the legal and financial management of the grants awarded to the programmes. Each project is required to submit a grant claim on a quarterly or monthly frequency to draw down funding. 30 days were allocated to this work for the year in the 2020/21 Audit Plan, of which 22 days had been used as at 19<sup>th</sup> March 2021.

### **3. Outcomes/outputs**

In carrying out systems and other reviews, Internal Audit assess whether key, and other controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates to any address control issues or recommendations for efficiencies identified during each review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

As already pointed out, progress against the agreed 2020/21 Internal Audit Plan has been greatly impacted by the COVID-19 pandemic with the Internal Audit resources diverted onto "response" tasks, especially in the first quarter of the year. However, during the summer, as well as completing those audits that remained from the 2019/20 plan, some work commenced on new audits, a number of which have been completed, with draft and final reports issued. For other audits, fieldwork has been completed and draft reports issued and we await responses from management on the content of those reports and the recommendations made. Several audits were planned for the final quarter, and work on the majority of these is progressing. A summary of progress is attached at **Appendix A**, and this provides the detailed position for each audit as at 19<sup>th</sup> March 2021.

Overall, and based on work performed to date during 2020/21, Internal Audit is able to provide **reasonable assurance** on the adequacy and effectiveness of the Authority's internal control environment. Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.

The reporting of individual high and medium priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee, in detail, of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.

**Appendix C** provides a summary of work where the planned work is complete but no audit report produced. This includes information with regards Non-Compliance with Contract or Financial Procedure Rules, and Fraud / Irregularity issues reported to Internal Audit during the reporting period.

#### 4. Options available and consideration of risk

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015.

#### 5. Proposed Way Forward

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

#### 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	<p>There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.</p>
Risk	Y	<p>The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.</p>
Supporting Corporate Strategy	Y	<p>This Progress Report and the work of Internal Audit supports all six of the Corporate Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.</p>
Climate Change – Carbon / Biodiversity Impact	Y	<p>None directly arising from this report. However, the Internal Audit function, managed by Devon Audit Partnership is very mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is</p>

		used to obtain evidence to support the audit process, although it is inevitable that on-site verification may be required at times. The team use an audit management system (Mki) which enables managerial review to take place remotely, thus also saving on the need for travel.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Appendices:**

There are three separate appendices to this report; Appendix A, B, and C.

#### **Background Papers:**

Annual Internal Audit Plan 2020/21 as approved by Full Council on 30 April 2020.

### **Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	<b>N/A</b>

■ Status as reported in previous Progress Reports    ✓ Change to Status between 8 January and 19 March 2021    **Appendix A**

## Summary of progress against agreed internal audit plan 2020/21 for **South Hams District Council & West Devon Borough Council**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>Work Carried forward from 2019/20</b>										
Housing Benefit 19/20	20	■	■	■	■		■			Summary presented to Audit Committee in February 2021
Treasury Management 19/20		■	■	■	■		■			Summary presented to Audit Committee in February 2021
Debtors 19/20		■	■	■	■			■		Summary presented to Audit Committee in February 2021
Creditors 19/20		■	■	■	■			■		Summary presented to Audit Committee in February 2021
Payroll 19/20		■	■	■	■			■		Summary presented to Audit Committee in February 2021
Employment / Recruitment Checks / Leavers Process 19/20		■	■	■	■				■	Summary presented to Audit Committee in February 2021
Contract Management 19/20		■	■	■	■				■	Summary presented to Audit Committee in February 2021
Grounds Maintenance Operations – Follow Up 19/20		■	■	■	■			■		Summary presented to Audit Committee in February 2021

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	







■ Status as reported in previous Progress Reports    ✓ Change to Status between 8 January and 19 March 2021    **Appendix A**

CUSTOMER SERVICE & DELIVERY											
Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Assurance Opinion				Comments	
						Substantial	Reasonable	Limited	No		
ICT Audit – Installation and Healthcheck	23	■	■	✓	✓			✓			Final report issued. Extract provided at Appendix B..
ICT Audit – Incident and Problem Management											Propose to Defer until 2021/22
ICT Audit – Access Management		■	■								
Locality Officers – Management, roles & scheduling	15										Propose to Defer until 2021/22
Development Control – Planning Enforcement	15	■	■								
Building Maintenance – Works Scheduling	10	■	■	■	■				■		Summary presented to Audit Committee in February 2021
Safeguarding	5	■	■	■	■			■			Summary presented to Audit Committee in February 2021
HR - Absence Management	5	■	■	■	■	■					Summary presented to Audit Committee in February 2021







## Summary of Internal Audit Findings 2020/21 – Final Reports

As at 19 March 2021, 12 final reports have been issued in respect of 2020/21 work with a further eight final reports relating to audits that were part of the previous 2019/20 Audit Plan. The conclusions from final reports issued since the last Audit Committee in February, are summarised below.

Subject	Audit Findings	Management Response
<b>2020/21 Audit Plan</b>		
ICT Audit – Installation and Healthcheck 2020/21	<p><b>Reasonable Assurance</b></p> <p>The review found that, for most of the sub-systems considered as part of this audit, controls were in place and operating. In the case of contract management, there was scope for controls to be improved and strengthened. However, reliance has been placed on the 2019/20 Contract Management audit, which included a review of ICT contracts, about which recommendations have been made and not repeated within this report.</p> <p>There were a small number of recommendations outstanding from the previous ICT Healthcheck audit of 2017/18, where revised controls still do not appear to be operating satisfactorily and which have been considered again as part of this year's audit. In addition, several matters have not been followed up as part of this review, with reliance instead being placed on the planned 2020/21 Corporate Information Management audit.</p> <p>For some of the issues we have previously raised, the ICT Practice have put procedures in place, but reliance is on other officers, outside of the ICT team, to follow these. Where this has not always been done, we have repeated our recommendations, for example, in relation to:</p> <ol style="list-style-type: none"> <li>1. The authorisation of ICT orders which should be restricted to Head of IT Practice and his deputy, the Senior Specialist - ICT Infrastructure.</li> <li>2. Agency leaver reports – Until such time as HR and ICT Leavers forms can be made available on the new NetCall system, the HR team should be issuing an agency leavers report to the Customer Support</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. This issue has improved. Two officers, other than the Head of ICT Practice and his deputy, were identified as having authorised orders for ICT goods and services. One has since left the Councils' employment and the other has been reminded of the policy regarding authorising orders.</li> <li>2. Agreed. A reminder will be issued asking for Agency Leaver reports to be issued to the Customer Support team monthly.</li> <li>3. Agreed. The Service Desk now have a process to use UPS couriers to collect equipment from employee's homes where it is too far for a Locality Officer to make the collection.</li> </ol> <p>Where an ex-employee is failing to communicate, a request has been made for an invoice to be issued.</p>

Subject	Audit Findings	Management Response
	<p>team on a regular basis.</p> <p>3. Recovery of ICT equipment – It is noted that, as a result of the COVID-19 pandemic, there were difficulties recovering ICT equipment from those who had left the Councils. Options such as Localities Officers collecting from an officer’s home or sending a courier have been considered. In some cases, repeated efforts to contact the individuals have failed and ICT equipment has not been returned.</p>	
<p>Insurance – Review of Cover Follow-Up 2020/21</p>	<p><b>Original Opinion 2019/20 Review - Limited Assurance</b></p> <p><b>Latest Opinion – Limited Assurance</b></p> <p>Following the completion of our follow up work, our audit opinion remains one of <b>Limited Assurance</b> as a significant number of higher priority recommendations remain outstanding, largely due to the impact of the Covid-19 pandemic.</p> <p>The insurance cover held by the Councils appears to be largely in line with that recommended by insurance providers, including the Local Government Mutual who may be considered to be unbiased as not seeking to make a commercial return. There is some degree of review of the level of insurance cover each year, as well as those items and activities insured. There is nothing to suggest that the Councils are under-insured, indeed it is more likely that they are over-insured.</p> <p>Last year we made several recommendations, which may contribute to the more effective management of insurance. Those relating to the administrative aspects of the annual renewal process were implemented. However, those relating to the Councils' overall approach to insurance remain outstanding, principally due to other work pressures resulting from the Covid-19 pandemic.</p> <p>We understand that it is still intended to act on the recommendations made, but that the target dates have had to be reconsidered. Those outstanding include:</p>	<ol style="list-style-type: none"> <li>1. Agreed. It has not been possible to progress the planned review due to the Covid-19 pandemic and the additional work pressures this has created on the relevant staff.</li> </ol> <p>An insurance action plan is to be drawn up, which will inform the Councils’ approach to insurance. After this has been done, it is intended to explore options and review levels of cover with both the existing insurance broker and the Local Government Mutual (LGM) in the first instance.</p> <ol style="list-style-type: none"> <li>2. Agreed. As part of any external advice, the appropriateness of cover will be examined.</li> </ol> <p>It is still intended to explore the option of cyber insurance, with application forms to be requested from the insurance broker.</p> <p>With regard ‘documents in transit’, WDBC have higher cover as they were couriered around more frequently, from Kilworthy to Follaton for example. The on-going need for such cover will be reviewed in time for the next annual renewal, particularly in light of increased electronic working.</p> <ol style="list-style-type: none"> <li>3. Agreed. See Point 2 above.</li> <li>4. Agreed. There is a link between risk management and insurance, but it would be beneficial for this to be</li> </ol>

## Appendix B

Subject	Audit Findings	Management Response
	<ol style="list-style-type: none"> <li>1. Seeking impartial external advice to make a review of the Councils' insurance arrangements,</li> <li>2. Ensuring that only appropriate activities or services are covered as required,</li> <li>3. Ensuring that the value of each type of insurance cover is appropriate and only to the level required,</li> <li>4. Strengthening the links to the risk management process, to ensure that insurance cover is considered for all new or changed risks,</li> <li>5. Consideration of alternative external insurance providers, other than commercial organisations, as well as self-insurance for some risks, and</li> <li>6. Putting an insurance strategy in place, which sets out the Councils' approach to external and self- insurance, as well as links to the risk management process.</li> </ol>	<p>formalised as part of the planned review of the approach to risk management.</p> <p>At present, both the Director of Governance and Assurance and the Head of Strategy and Projects have an overview of service provision and associated risks and they are confident that any major concerns would be identified. In addition, the Programme Board has recently been re-introduced, providing further monitoring of projects and their risks.</p> <ol style="list-style-type: none"> <li>5. Agreed. Initial discussions were held with the Local Government Mutual (LGM), but these were brought to an end by the Covid-19 pandemic. Any future insurance action plan will inform the Councils' approach to insurance, after which the conversation with LGM can be recommenced, based on the insurance requirements identified.</li> </ol> <p>If some risks are self-insured, an appropriate Insurance Earmarked Reserve at an appropriate level will be recommended to Council for approval, with appropriate annual revenue contributions into the Reserve being approved as part of the annual revenue budget setting process.</p> <ol style="list-style-type: none"> <li>6. Agreed. The Head of Strategy and Projects is to produce an insurance action plan for the Councils.</li> </ol>

## Planned Audit 2020/21 – Work Complete (No Audit Report)

Subject	Comments
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2019/20 financial year.</p> <p>The S151 Officer presented the 2019/20 AGS to the Audit Committee on 30 July &amp; 15 October 2020.</p>
<b>Exemptions to Financial Procedure Rules</b>	Three applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.
<b>Fraud / Irregularity</b>	There have been no irregularities to report.